

108TH CONGRESS  
1ST SESSION

# H. R. 226

To amend the Internal Revenue Code of 1986 to allow individuals to exclude dividend income.

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IN THE HOUSE OF REPRESENTATIVES

JANUARY 7, 2003

Mr. WILSON of South Carolina introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to exclude dividend income.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Dividend Taxation  
5       Elimination Act of 2003”.

6       **SEC. 2. EXCLUSION OF DIVIDENDS RECEIVED BY INDIVID-**  
7       **UALS.**

8       (a) IN GENERAL.—Part III of subchapter B of chap-  
9       ter 1 of the Internal Revenue Code of 1986 (relating to  
10       amounts specifically excluded from gross income) is

1 amended by inserting after section 115 the following new  
2 section:

3 **“SEC. 116. EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.**  
4

5 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-  
6 come does not include dividends which are otherwise in-  
7 cludible in gross income and which are received during the  
8 taxable year by an individual.

9 “(b) SPECIAL RULES.—For purposes of this sec-  
10 tion—

11 “(1) EXCLUSION NOT TO APPLY TO CAPITAL  
12 GAIN DIVIDENDS FROM REGULATED INVESTMENT  
13 COMPANIES AND REAL ESTATE INVESTMENT  
14 TRUSTS.—

**“For treatment of capital gain dividends, see sections 854(a) and 857(c).**

15 “(2) CERTAIN NONRESIDENT ALIENS INELI-  
16 GIBLE FOR EXCLUSION.—In the case of a non-  
17 resident alien individual, subsection (a) shall apply  
18 only in determining the taxes imposed for the tax-  
19 able year pursuant to sections 871(b)(1) and 877(b).

20 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-  
21 ERSHIP PLANS.—Subsection (a) shall not apply to  
22 any dividend described in section 404(k).

23 “(4) CERTAIN DIVIDENDS EXCLUDED.—Sub-  
24 section (a) shall not apply to any dividend from a

1 corporation which for the taxable year of the cor-  
 2 poration in which the distribution is made is a cor-  
 3 poration exempt from tax under section 521 (relat-  
 4 ing to farmers' cooperative associations).”.

5 (b) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 32(i)(2) of  
 7 such Code is amended by inserting “(determined  
 8 without regard to section 116)” before the comma.

9 (2) Subparagraph (B) of section 86(b)(2) of  
 10 such Code is amended to read as follows:

11 “(B) increased by the sum of—

12 “(i) the amount of interest received or  
 13 accrued by the taxpayer during the taxable  
 14 year which is exempt from tax, and

15 “(ii) the amount of dividends received  
 16 during the taxable year which are excluded  
 17 from gross income under section 116.”.

18 (3) Subsection (d) of section 135 of such Code  
 19 is amended by redesignating paragraph (4) as para-  
 20 graph (5) and by inserting after paragraph (3) the  
 21 following new paragraph:

22 “(4) COORDINATION WITH SECTION 116.—This  
 23 section shall be applied before section 116.”.

1           (4) Subsection (c) of section 584 of such Code  
2       is amended by adding at the end the following new  
3       flush sentence:

4       “The proportionate share of each participant in the  
5       amount of dividends received by the common trust fund  
6       and to which section 116 applies shall be considered for  
7       purposes of such section as having been received by such  
8       participant.”.

9           (5) Subsection (a) of section 643 of such Code  
10      is amended by redesignating paragraph (7) as para-  
11      graph (8) and by inserting after paragraph (6) the  
12      following new paragraph:

13           “(7) DIVIDENDS.—There shall be included the  
14      amount of any dividends excluded from gross income  
15      pursuant to section 116.”.

16           (6) Section 854(a) of such Code is amended by  
17      inserting “section 116 (relating to partial exclusion  
18      of dividends received by individuals) and” after “For  
19      purposes of”.

20           (7) Section 857(c) of such Code is amended to  
21      read as follows:

22           “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-  
23      CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

24           “(1) TREATMENT FOR SECTION 116.—For pur-  
25      poses of section 116 (relating to partial exclusion of

1 dividends received by individuals), a capital gain div-  
2 idend (as defined in subsection (b)(3)(C)) received  
3 from a real estate investment trust which meets the  
4 requirements of this part shall not be considered as  
5 a dividend.

6 “(2) TREATMENT FOR SECTION 243.—For pur-  
7 poses of section 243 (relating to deductions for divi-  
8 dends received by corporations), a dividend received  
9 from a real estate investment trust which meets the  
10 requirements of this part shall not be considered as  
11 a dividend.”.

12 (8) The table of sections for part III of sub-  
13 chapter B of chapter 1 of such Code is amended by  
14 inserting after the item relating to section 115 the  
15 following new item:

“Sec. 116. Exclusion of dividends received by individuals.”.

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years ending after the  
18 date of the enactment of this Act.

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